FARMERS' NEWSLETTER
Livestock

December 81/F-24

Most cattlemen face prospects for disappointing returns and much uncertainty for early 1982. The economy has slumped considerably since last fall with the weakness spreading beyond housing and autos into nondurable goods.

Reduced business activity, questions about future income levels, and more people out of work mean retail demand for farm products will remain slack. This is especially true for meats.

At the same time large red meat and broiler supplies will burden the retail market and bear on prices through the spring.

As the upswing in the cattle cycle continues, beef production will likely rise 2 to 4 percent in 1982 following a 2- to 3-percent gain in 1981. Supplies will be large relative to the weak beef demand brought on by plenty of lower-priced meats, slow economic growth, and tight consumer budgets.

Choice steer prices at Omaha are expected to rise some from their lows of this fall but only average $64 to $67 per cwt. at least through mid-1982 when the economy is forecast to improve. Feeder cattle prices may rise slightly more than Choice steer prices due to lower feed costs and the expected rise in fed cattle prices, allowing cattle feeders to bid more for replacements. Cattle feeders will also face strong competition from stocker operators with good forage supplies.

Better Prospects Ahead

The question is how to get through the next few months.

Some improvement may begin late in the spring if the economy strengthens as expected, and with further gains coming as the 10-percent tax cut due next July 1, takes effect. Feed costs are relatively low, and declining interest rates will help check total production costs. Also, pork supplies are expected to continue below year-earlier levels at least through mid-1982.

Feedlots are cleared of cattle placed there last spring. The number on feed in the 7 major feeding states December 1, and the number placed during November were the lowest for the periods since 1974.

However, there were still plenty of cattle in the countryside--on October 1 2 percent (900,000) more were outside feedlots than a year earlier and available for placement on feed, stocker programs, or nonfed slaughter. This means relatively large beef supplies will continue to keep downward pressure on prices.

Before considering strategies, let's look at some of the more important factors affecting your decisions.

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Feed Costs Drop

Feed costs are much more favorable for cattlemen than they were a year ago. A record feed grain crop, nearly 246 million metric tons, 24 percent more than in 1980, will rebuild stocks while lowering feeding costs. The corn crop is forecast at a record 8.1 billion bushels, 22 percent more than in 1980 and 2 percent more than the record set in 1979. Grain sorghum production is put at 876 million bushels, 49 percent more than in 1980.

The farm price of corn is expected to average $2.45 to $2.70 per bushel, compared with $3.10 in 1980/81. Prices in the western Corn Belt in mid-November averaged well below the U.S. farm average of $2.33. Grain sorghum prices in Texas averaged $4.31 in mid-November, compared with $5.71 a year ago.

Feed prices are near their harvest lows and seasonal increases can be expected until next summer, when the size of the 1982 crop comes into clear focus.

Pasture and Forage in Good Shape

Very favorable moisture conditions in most areas since spring helped farmers build their hay stocks. The hay crop was 8 percent above the previous year and only 4 percent below the 1979 record.

Winter grazing prospects are good in most areas, especially the western wheat fields. Pasture and range feed conditions on December 1 showed almost a 25-percent improvement over a year earlier, offering the best grazing since the early 1970's. Poor grazing continued in the Southeast, although recent rains improved prospects.

Nearly 46 percent of the winter wheat seeded in the High Plains of Kansas, Oklahoma, and Texas had sufficient growth to support grazing on December 1, substantially more than last year. Nearly 25 percent of the acreage was being grazed compared with 8 percent last year. The wheat forage supply was rated mostly good. It is estimated that 5 acres of wheat pasture are necessary to support a 400-lb. calf, down substantially from the 8 acres required a year ago.

BREAK-EVEN FEEDER STEER PRICES[1]

Corn price $ per bu.	Choice steers, $ per cwt. 55	60	65	70	75
2.00	49	57	66	75	84
2.25	47	55	64	72	82
2.50	44	53	62	71	80
2.75	42	51	60	69	77
3.00	40	49	58	66	75
3.25	38	47	55	64	73

[1] Feeder steer prices consistent with break-even, given farm corn prices and prices for 600-pound medium frame No. 1 (Choice) feeder steers and 1,056-pound Choice fed steers. Assumes all other costs at October 1981 levels; based on Great Plains custom cattle feeding budget.

Interest Rates Decline

The prime interest rate declined from above 20 percent in early fall to below 16 percent in mid-December. Interest rates are expected to continue moderating through next spring. The combination of lower feed prices and moderating interest rates has already reduced production costs.

Although your operating costs should be less, prospects for only moderate fed cattle price improvement in the first half of 1982 will limit profit possibilities.

Consider the following factors in making your decisions about the cattle you have on hand or stocker purchases.

Stocker Programs

Medium, No. 1 400- to 500-lb. stocker steer calves at Kansas City averaged in the mid $60's per cwt. in December, nearly $12 below a year earlier. Although already lower feed and interest costs may support modest improvements in prices feedlot operators are

willing to pay for feeder cattle, prices for yearling feeder steers are not likely to increase much above the mid-$60's until at least next spring.

Therefore, the decision to overwinter part of last spring's calf crop or to purchase stocker calves for a grazing operation must hinge on sufficient supplies of forage this winter to provide low-cost gains.

Holding on to some of your calves may be a good idea if you already own them and have plenty of forage and hay supplies to get through a hard winter.

Right now might not be the best time to market those calves because many auction rings will be full of stock coming off seasonally decreasing grazing. Even if fed cattle prices rise modestly, little improvement in feeder cattle prices is likely until late winter.

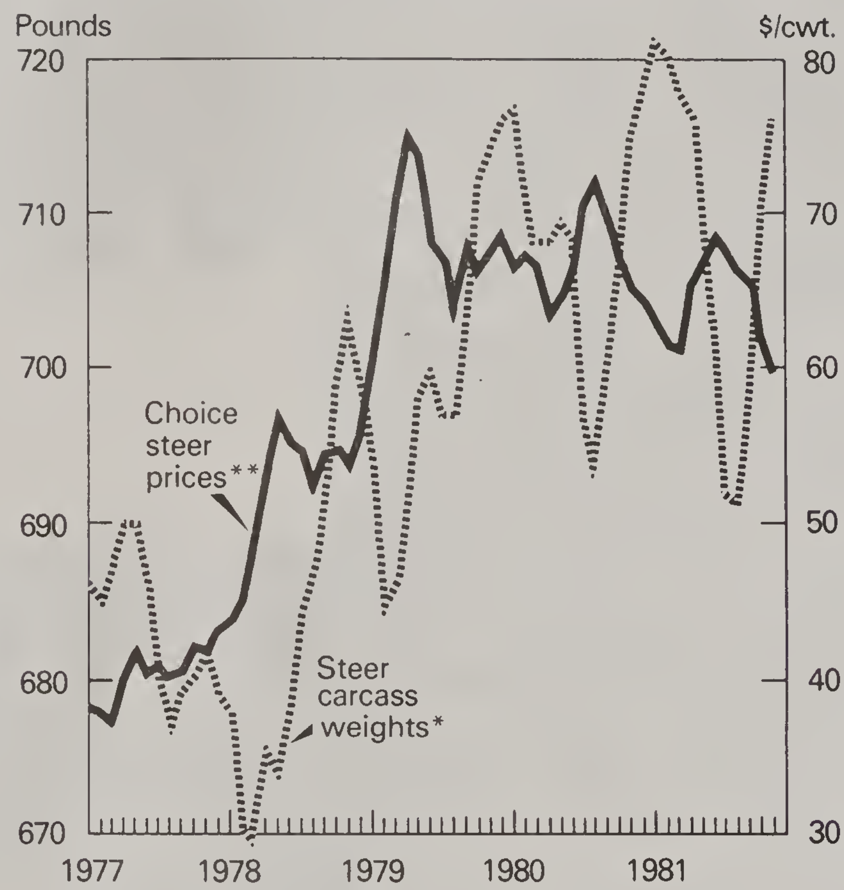
Steer calves weighing between 400 and 500 lbs. in December would likely weigh 600 to 700 pounds next spring, depending on forage conditions and the length of the grazing period.

Two questions arise...what price will be needed to offset costs, and how will that price compare with what you'd get if you sold now and paid off some debts or put the money in the bank?

As an example, let's assume a $68 sales price now for a 450-lb. steer calf--early December prices were about $67 per cwt. at Kansas City and $70 in Amarillo. That sale would bring you $306. Subtracting about $3.00 per head for marketing charges leaves you $303 to possibly pay off bills and avoid high-rate interest costs or invest and earn a dividend. Investing the $303 at 10 percent for 5 months would generate $13.

This means the 600-lb. "short" yearling next spring would need to sell for almost $53 per cwt. to cover the $316

HEAVY SLAUGHTER WEIGHTS DEPRESS PRICES



*Average dressed weight of steers slaughtered under Federal inspection.
**Price of Choice steers, 900-1,100 lbs., at Omaha.

the sale would have been worth if you had sold in late 1981 and invested the returns ($303 + $13= $316). This doesn't count supplemental feed and other costs incurred for keeping the steer through the winter.

If you plan to buy stocker calves and have to lease pasture and buy grain, figure in these costs. If you borrow the money to buy the cattle, interest costs on each $306 stocker-feeder steer for 5 months at 18 percent would be about $23.00. In addition, a 3-percent deathloss factor must be considered in the overwintering program. That adds $9.00, bringing costs to $338, without including feed and other expenses.

Yearling feeder cattle are expected to sell in the mid-to-upper $60's next spring, although this will depend on a strengthening economy. Futures contracts for spring delivery were trading for $58 to $59 in December, reflecting large feeder cattle supplies and market uncertainty ahead. A hedged feeder cattle price next May of $59 would result in a $16-per-head return on all other inputs.

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If you get $65 per cwt. for the 600-lb. feeder next spring, $408 in all, you'll be able to pay $52 per head ($390 - $338) for pasture rent and other expenses and at least break even. You must carefully consider forage supplies and costs as well as the likelihood of feeder cattle prices averaging at least $57 ($338 divided by 6) to break even on feeder cattle and interest charges.

Monitor Costs and Weights

Lower feeder cattle and feed costs combined with moderating interest costs are the most promising factors for cattle feeders through the first half of 1982. The breakeven table on p. 2 indicates what feeders can pay for cattle at various corn and fed cattle prices.

Fed cattle prices averaging $65 per cwt. next spring would allow cattle feeders to pay $64 per cwt. for feeder steers if corn prices averaged $2.25 per bushel. Other costs, excluding feed grain and feeder cattle costs, are estimated to average $17.50 per cwt. in this example. Breakeven prices necessary to cover feed and feeder cattle costs would be about $8 per cwt. lower.

If you decide to place cattle on feed, a second important consideration is marketing weights. The chart on steer carcass weights and Choice fed steer prices indicates the downward pressure heavy slaughter weights have on cattle prices. While this is only part of the price problem the negative relationship between weights and prices is real. This is one aspect which feedlot operators fully control themselves. These overweight marketings depress prices and result in expensive inefficient gains.

In the next 6 months, with narrow profit margins expected, feeders need to be careful to move cattle at the most profitable time. Heavy weights and large total meat supplies have been a problem the last two winters and 1982 may not be an exception.

Since only moderate price improvement is expected until at least the second half of 1982, cattlemen need to monitor their resources and costs carefully in making management decisions.

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